COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0417-01
Bill No.: HB 191
Subject: Business and Commerce; Economic Development; Tax Credits
Type: Original
Date: February 11, 2013

Bill Summary: This proposal establishes the Missouri Angel Investment Incentive to stimulate small business growth and makes changes to the New Markets Tax Credit Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	$0 to ($6,000,000)	$0 to ($21,256,410)	$0 to ($29,376,410)
Total Estimated Net Effect on General Revenue Fund	**$0 to ($6,000,000)**	**$0 to ($21,256,410)**	**$0 to ($29,376,410)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

§ 135.680 New Markets Tax Credit

Officials at the **Office of Administration - Budget and Planning** (**BAP**) assume that since FY 2011, the New Markets Tax Credit program has required annual legislative authorization (via concurrent resolution) in order to allocate benefits under the program. This proposal removes the provision calling for annual authorization. As a result, the program would be able to operate as designated in statute through its scheduled sunset date (September 4, 2013) with a $25 million cap. This proposal could therefore lower General and Total State Revenues by that amount. This proposal may encourage other economic activity, but BAP does not have data to estimate induced revenues.

Officials at the **Department of Economic Development** (**DED**) assume this proposal reauthorizes the New Markets Tax Credit program, which maintains the $25 million cap per fiscal year. DED assumes an unknown negative impact over $100,000 offset by an unknown positive impact as a result of economic development generated by the program. BCS is not requesting any new FTE at this time; however, if it is determined an additional FTE is needed the FTE will be requested in the normal budget process.

DED assumes with the changes in the proposal, they could certify investments made in calendar year 2013, up to the sunset date, to qualify for the program. DED estimated that under the existing cap, up to $85 million in additional tax credits (spread over seven years) would be available to be issued with these changes.

In response to a similar proposal from this year, DED estimated the remaining money under the $25 million annual cap for this program is $256,310 in FY 2013, $10,208,410 in FY 2014, $15,256,410 in FY 2015 and $23,376,410 in FY 2016.

According to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the New Markets tax credit program had the following activity;

	FY 2010	FY 2011	FY 2012
Certificates Issued (#)	6	12	35
Projects (#)	6	11	19
Amount Issued	$8,708,000	$14,969,000	$21,459,446
Amount Redeemed	$0	$1,199,285	$15,385,989

ASSUMPTION (continued)

Oversight assumes the New Markets Tax Credit is to sunset on September 4, 2013. This part of the proposal removes the provision calling for annual authorization of this credit. If adopted, this proposal would go into effect on August 28, 2013 and then would sunset September 4, 2013 (FY 2014). Oversight assumes DED could certify investments in that seven day window that occurred in calendar year 2013. The program allows no credits for the purchase in the first two years, and seven percent of the investment starting in the third year. Oversight will assume no fiscal impact from this part of the proposal in FY 2013 and FY 2014. However, Oversight will reflect a potential impact up to the remaining amount under the cap in FY 2015 and FY 2016. Oversight will range the fiscal impact from $0 (no investments were made or DED did not certify any investments) up to the amount available under the annual cap.

§§ 348.273 and 348.274 Missouri Angel Investment Incentive Act

Officials at the **BAP** assume this part of the proposal creates the Missouri Angel Investment Incentive Act. The total amount of tax credits available for this program is $66 million, with a total of $6 million allowed annually for tax years 2013 through 2023. However, there are provisions for the balance of unissued tax credits to be carried over for issuance in future years until December 31, 2023. This proposal could therefore lower General and Total State Revenues by that amount. This program may encourage other economic activity, but BAP does not have data to estimate the induced revenues.

Officials at the **DED** assume this part of the proposal creates the Missouri Angel Investment Incentive Act to be administered by the Missouri Small Business and Technology Development Centers, University of Missouri. DED is a recipient of the annual report for the program. As a result of the proposal, DED assumes an unknown negative fiscal impact over $100,000, offset by an unknown positive economic benefit based on the increase in economic activity.

Officials at the **University of Missouri** assume this proposal would have no financial impact on the University.

Officials at the **Department of Revenue** (**DOR**) assume this proposal would require changes to various tax systems. These changes are estimated to cost $22,722 for 840 FTE hours. Additionally, DOR's Personal Tax Division will need one Revenue Processing Technician I ($25,884) per 4,000 tax credits claimed and one Revenue Processing Technical I ($25,884) per 2,400 pieces of correspondence. DOR's Corporate Tax Division will need one Revenue Processing Technician I ($25,884) per 4,000 tax credits redeemed.

ASSUMPTION (continued)

Oversight assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Oversight assumes DOR's Personal/Corporate Tax Divisions could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state an unknown reduction of premium tax revenues as a result of the establishment of the Missouri Angel Investment Act is possible. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Oversight assumes the changes to an existing program and creation of a new program in this proposal would have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in the fiscal note.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
Revenue Reduction - § 135.680 - extension of the New Markets tax credit	$0	$0 to ($15,256,410)	$0 to ($23,376,410)
Revenue Reduction - § 348.273 - creation of the Angel Investment Incentive Act	$0 to ($6,000,000)	$0 to ($6,000,000)	$0 to ($6,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to ($6,000,000)**	**$0 to ($21,256,410)**	**$0 to ($29,376,410)**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the credits could be impact.

FISCAL DESCRIPTION

This bill changes the laws regarding the Missouri New Markets Development Program and establishes the Missouri Angel Investment Incentive Act.

The bill repeals the requirement that no qualified equity investments for the Missouri New Markets Development Program can be permitted unless the General Assembly adopts a concurrent resolution granting authority to the Department of Economic Development to approve qualified equity investments and clearly describing the amount of tax credits available for the next fiscal year.

FISCAL DESCRIPTION (continued)

The Missouri Angel Investment Incentive Act is established and is to be administered by the regional Missouri Small Business and Technology Development Center (SBTDC) and the SBTDC home office. The primary goal of the act is to encourage individuals to provide seed-capital financing for emerging Missouri businesses engaged in the development, implementation, and commercialization of innovative technologies, products, and services.

A tax credit must be allowed for an investor's cash investment in the qualified securities of a qualified Missouri business. The credit must be in a total amount equal to 50% of the investor's cash investment in any qualified Missouri business. This tax credit may be used in its entirety in the taxable year in which the cash investment is made except that no tax credit can be allowed in a year prior to 2013. If the amount by which that portion of the credit allowed exceeds the investor's liability in any one taxable year, beginning in 2013, the remaining portion of the credit may be carried forward until the total amount of the credit is used. If the investor is a permitted entity investor, the credit must be claimed by the owners of the permitted entity investor in proportion to their cash investment in the permitted entity investor. The maximum tax credit allowed is $50,000 for a single qualified Missouri business or a total of $250,000 in tax credits for a single year per investor who is a natural person or owner of a permitted entity investor. No tax credits can be allowed for any cash investments in qualified securities for any year beginning after December 31, 2023. The total amount of tax credits that can be allowed cannot exceed $6 million during any tax year. The balance of unissued tax credits may be carried over for issuance in future years until December 31, 2023.

The provisions of the bill expire December 31, 2023.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

JH:LR:OD

SOURCES OF INFORMATION

Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Office of Administration
Budget and Planning
University of Missouri

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